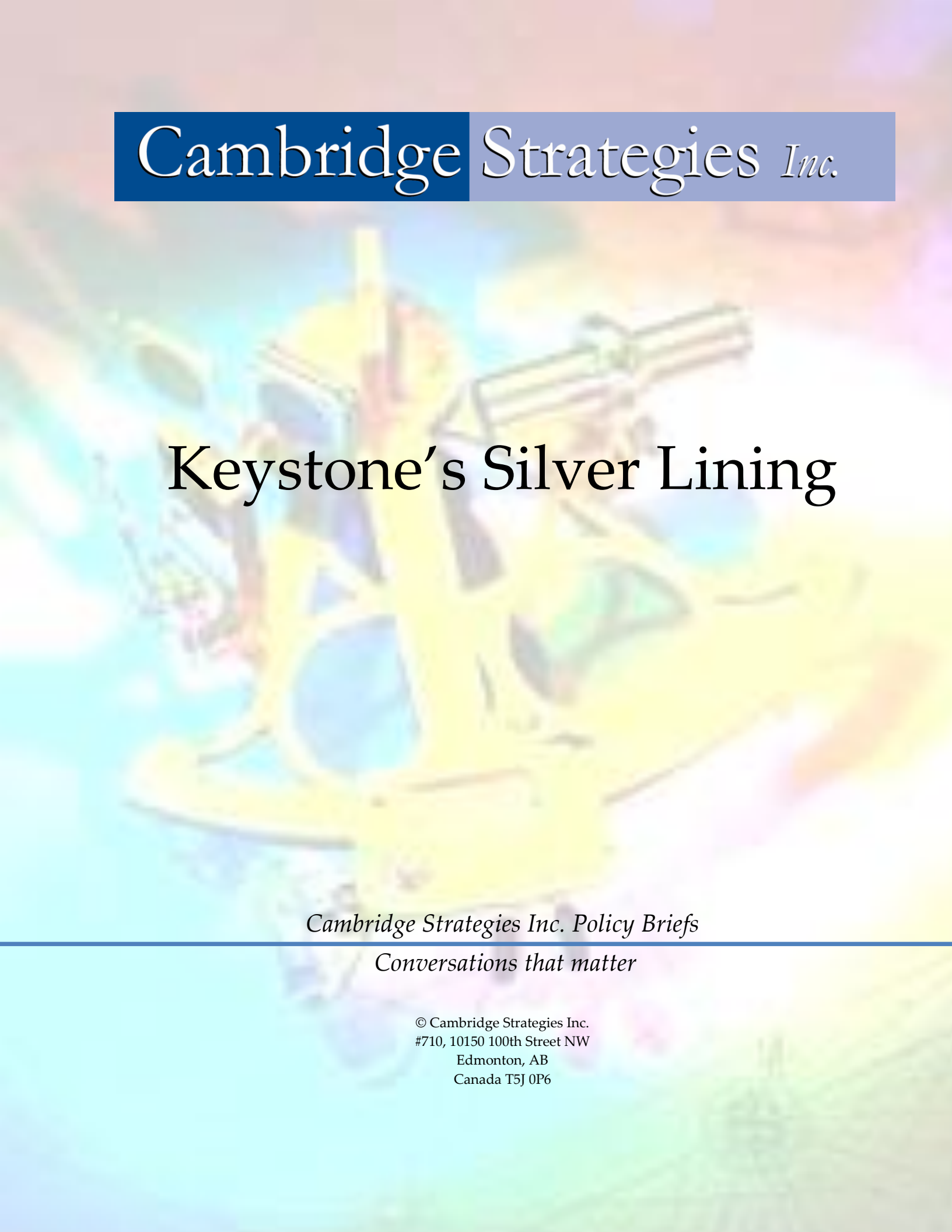




Cambridge Strategies *Inc.*

Keystone's Silver Lining

Cambridge Strategies Inc. Policy Briefs

Conversations that matter

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CAMBRIDGE STRATEGIES INC.

POLICY BRIEF No. 5

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Keystone's Silver Lining

The U.S. rejection of the Keystone XL pipeline is hardly the catastrophe pessimists foresee. Alberta can take practical steps to secure new markets for its oil, and the cleaner energy technologies oil wealth can fund, says CSI Principal Satya Brata Das

Hearts and minds will trump dollars and cents, every time.

That enduring lesson was remembered too late in the “routine” application to boost bitumen exports to the United States through the Keystone XL pipeline. Great engineering, robust capital pools, and “straightforward” regulatory approval count for little, if there’s no buy in from the public.

A major energy project – whether a pipeline or an oil sands development – demands the consent of the public and their political servants.

With so many recent high profile cases in which public trust is breached by both government and commerce, any resource-based enterprise must be perceived as an outstanding model of responsible corporate stewardship.

Job creation, wealth creation and a high degree of productivity no longer suffice to grant the social license to operate. More is expected of entrepreneurs and enterprises that seek to be entrusted with a public asset like the quality of our environment. Resource businesses in particular must be seen to be stewards focused on sustainability as well as commercial success. Winning public trust necessitates an understanding of the foundations, values and principles on which the public bases its trust.

When our firm mapped Albertan values towards [oil sands development in 2007](#) and [2010](#), Albertans told us all oil sands development must occur within a framework of environmental sustainability and stewardship. Core values included habitat protection, reclamation to a state that sustained a wide variety of plant and animal life, independent third-party monitoring, and assurance of best practices.

These findings aren't lost on oil sands producers, who are trying their level best to live up to citizen expectations and align with public values. Pipeline companies would have little to lose and perhaps much to gain if they too understood – and aligned with – the values of the citizens and publics affected by their projects.

In fact, it may be the most viable path forward if the Keystone XL project is to be revived. And even more necessary – given the swelling and diverse opposition – as the application proceeds to build a new pipeline to the Canadian west coast at Kitimat, and its long fjord leading to the open sea.

Moreover, there is a silver lining to the Keystone freeze. It will serve to focus Alberta's policy makers on two imperatives: expanding our sovereign export capacity, and leveraging our oil sands wealth to add value to the resource.

One of the more promising ways to add capacity might be to follow existing transportation and utility corridors to the sea. In the short term, for instance, it might be equally useful to contemplate a west coast pipeline that follows either the railway or the highway to the Port of Prince Rupert. Kitimat is a preferred choice because it avoids the final mountain range. Yet the same Alberta expertise that built a high-mountain pipeline across the Andes can surely find a way.

Similarly, it is surely worth considering the existing connection to the Port of Churchill, one of the Canadian Wheat Board's main export routes for our grain. A buried pipeline along the railway to Churchill may be less contentious than the Kitimat route.

And as an exercise in nation building, we can get Alberta oil to eastern Canada by reversing the flow of the Sarnia to Montreal pipeline. This would enable all Canadians to use Canadian crude oil: eastern refineries now import oil from the Middle East and Venezuela, because there is no way to get Alberta crude to their gates.

Another key step is to link Alberta's two major oil sands deposits, by building a connector between the Regional Municipality of Wood Buffalo and the Peace River region.

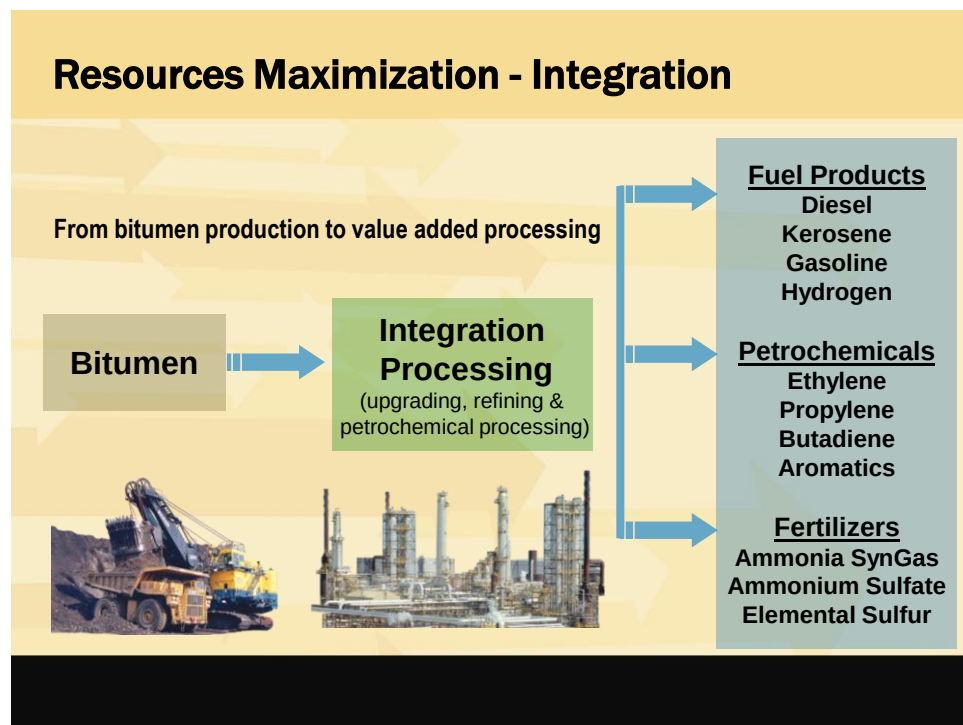
There is a significant opportunity to build on the wealth and potential of all of Northern Alberta and to continue to contribute to Alberta's long-term sustainable economic growth, through the creation of, and participation in, a "New Northwest Passage" which would extend east from Prince Rupert across the prairies to Winnipeg.

The Alberta portion of the New Northwest Passage would be an economic road and service corridor connecting the Peace River country to the Wood Buffalo region. This connector could also be a more viable corridor for future pipelines, fibre optics, and transmission lines, in addition to road and rail.

It can create upgrading and value added opportunities in agriculture, forestry, oil and gas, refining and power generation in and for the North as well as diversification of markets with the coastal port connections. These would provide the bulk of shipments from the port of Prince Rupert.

One of the main by-products of oil sands upgrading is petroleum coke. Right now, it is in demand as a coal substitute. Yet as the world moves to hydrogen as a potential fuel source, it will become even more important. Petroleum coke can be an abundant feedstock for hydrogen, and for synthesis gas.

In fact, if Alberta takes advantage of the Keystone freeze to vigorously pursue opportunities to add value, the picture looks something like this:



Source: Government of Alberta, Ministry of Treasury Board and Enterprise

The Keystone freeze gives Alberta time, and room to manoeuvre, in making the transition from raw bitumen to the future set out in the graphic above.

Getting to this future will need a strong and durable partnership between the private sector, and the public that owns the resource.

Had Keystone gone ahead on schedule, we would have been committed to shipping diluted bitumen. Now, we can plan and create the market opportunities to process the bitumen to add genuine value.

And in doing so, we will fulfill an even broader objective: using and leveraging our oil sands wealth to fund and create the greener and more sustainable energy sources of the future.

Using oil sands to fund the transition to clean energy: this is the strongest moral imperative we have to develop the oil sands. It is the strongest argument we have in seeking our own social license from a world that sees Alberta only as a source of dirty oil.

This integrated processing of bitumen into both petroleum products and petrochemicals, in turn becomes a building block for another level of value and wealth creation. If we set our horizons higher, we can apply the knowledge economy to extract even higher value from the raw bitumen we would have exported through Keystone XL.

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